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## RESUMPTION OF SPECIE PAYMENTS IN AUSTRIA-HUNGARY.

### I.

It lacks five years of a half-century since specie payments were suspended in Austria. The disturbances of the year 1848 not only threw into confusion the finances of the state, but also made it necessary to exempt the bank from the obligation to redeem its notes. Since then the Austrian public has become so accustomed to paper, the precious metals have so completely disappeared from circulation, during this long time, that a return to specie seemed to many a vexatious and costly undertaking. If the wish of the great mass of the people had prevailed, Austria would never again have given up the paper standard.

The suspension of the bank act in 1848, however, has a history back of it. The disorder in the Austrian finances began much earlier, a full century ago, with the great wars following the French Revolution. The government had not availed itself of the era of peace which followed the overthrow of Napoleon to establish a permanent equilibrium in its national economy; but, to relieve its own embarrassment, it had diverted to its own uses the resources of the National bank, which, in point of fact, had already been bankrupt for a long time. So that the events of the year 1848 only compelled the government to confess this bankruptcy, which had previously been kept secret.

American readers who are habituated to the rattling pace of the economic development of their own country, will hardly be able to comprehend the slow economic progress of Austria, which has only latterly been somewhat accelerated. These readers will have to appreciate and bear in mind that European civilization owes to its history almost as many hindrances as germs of cul-

ture, and that our country lies on the frontier where western civilization shades away into eastern barbarism.

Since 1848 neither government nor people has spared sacrifices or efforts to bring order into the monetary system. The resumption of specie payments, or, as we say, the "regulation of the standard," [*valutaregulirung*] has been an ever-recurring feature in the programs of all new ministries and all great parties. In the earlier schemes, as a matter of course, was agitated the question of redeeming the excess of notes and again issuing silver, the old national money. In spite of the chronic deficit in the finances during the fifties, this purpose narrowly failed of realization in 1858, but in 1859 the unfortunate war with France and Piedmont, terminating with the loss of Lombardy, lost all that had been gained. After further great financial sacrifices in the effort to resume specie payments, the paper money system was established anew by the yet more unlucky war of 1866, which Austria waged for the preservation of what remained to her of her historic position in Germany and in Italy.

One result, at any rate, was achieved at this time. The National bank was freed from its connection with the paper currency and, finally, its solvency was also secured. To be sure, it has not, even at the present writing, adopted payment in specie; but the notes which it issues (of ten gulden, one hundred gulden, and higher denominations) have, since then, always been adequately covered by a metallic reserve (even though this was only the old silver coinage) and the notes could always be instantly redeemed in silver. At the same time, there have been in circulation since 1866 treasury notes (of one, five and fifty gulden) which represent the actual paper-money indebtedness of the country and which are not secured in any way. The amount of these treasury notes is variable and in a curious manner. The authorized maximum note-issue is made to depend on the amount of so-called Saltworks Notes [*Salinenscheine*] (interest-bearing treasury bills, running for short periods) issued by the government. That is, the government may issue its notes to the amount of 312,000,000 gulden, and any additional amount,

provided that these notes, together with the "saltworks notes," do not exceed 412,000,000. At present the "saltworks paper" is in circulation at the maximum amount of 100,000,000, and the notes are accordingly reduced to their lowest point of 312,000,-000 gulden.

Soon after 1866 the monarchy received its new constitutional form. The political unit, Austria, gave way to Austria-Hungary, a dual state, in which it may be remarked the Austrian National Bank became the Austro-Hungarian Bank. I will not weary the reader with an account of the very complicated constitutional provisions which fix the relations of the two divisions of the Empire with reference to coinage, the currency, and the debt. It is enough to say that provision was made for resumption in the two parts of the Empire in the same manner; that the consent of the two legislatures was made requisite to its consummation; and that the actual work of resumption was entrusted to the two administrations severally. The dual constitution required the agreement of so many factors as to hinder and retard the regulation of the currency. The western section with its better ordered finances was subjected to the necessity of waiting until Hungary should have supplied her deficit, and so far fortified her credit as to enable her to enter upon the redemption of her paper without excessive sacrifices and with some prospect of success. The attainment in both sections at the same time of a well-ordered financial system is a thing of quite recent realization. By great increase of taxation and by the aid of a gradual development of the national wealth it has at last been made possible, in spite of an extraordinary increase in expenditure, especially for military purposes, to meet the demands upon the treasury by means of the ordinary receipts, without the necessity of annually contracting new loans.

It is also to be remarked that considerable national loans have been contracted year after year; that a great part of these loans have been placed abroad; and that, moreover, a considerable amount of foreign capital has come into the country in the

form of investments in railroad and other enterprises, both in joint-stock and in private undertakings.

Our entire foreign debt has been estimated at about four milliards of gulden. In the discussion of the currency question by publicists and in Parliament, this very grave circumstance in the financial situation was regarded as one of the most serious hindrances to the desired reform of the currency. Even after a fiscal balance had been established in both states, it was feared that the necessity of paying such great sums abroad in interest and principal, would not admit of any specie remaining in the country. Confidence has at last been restored by the discovery that domestic capital has gradually accumulated to such an extent as not only for the most part to meet the home demands for capital, but also to redeem very considerable portions of the claims held against us abroad, while the balance of trade has gradually changed in our favor to such an extent as to offset the interest on our foreign debt. Yet it is probable that resumption would have been accomplished even before the adjustment of the yearly balances in our public and private finances had been attained, but for the important intervening occurrences in the silver market. These events had such a striking effect on our monetary situation that it will be necessary to go into the matter somewhat in detail.

## II.

From the year 1848 the Austrian paper gulden as compared with the silver gulden, was at a discount which fluctuated greatly, disappeared only temporarily, and maintained an average, from 1848-1858, of 14.73 per cent., from 1859-1865 of 23.09 per cent., and from 1866-1870 of 20.21 per cent. It goes without saying that the paper money was likewise at a discount relatively to gold and gold coin. After 1859 the Napoleon d'or was quoted on the Vienna bourse, and the discount on the paper gulden, as compared with that coin was, on an average, 23.26 per cent. from 1859-1865, and 19.77 per cent. from 1866-1870; thus agreeing approximately with the discount relatively to sil-

ver. The coincidence of the gold and silver premium of course ceased at the instant silver fell in the world's market. The Austrian paper gulden was at that time in law and in fact an irredeemable promise to pay a silver gulden, and was consequently quoted at a given figure below the silver gulden. Accordingly, when silver declined relatively to gold, it might have been expected that the discount of the paper, as compared with silver, would not be affected by this fact; and that the paper therefore would always maintain its own proper discount as compared with silver, however much silver might decline relatively to gold. But the event was quite otherwise. The greater the discount of silver became relatively to gold, the less became its premium relatively to paper. The average depreciation of our paper money as compared with gold was, from 1874-1878, 14.92 per cent.; as compared with silver it amounted only to 5.15 per cent. Finally, in 1878, the premium on silver disappeared in Austria completely and finally, while the premium on gold remained and has indeed increased since that time. The price of silver in London, the price of silver in Vienna, and the exchange on London, were at this time such that it was profitable to import silver into Austria and coin it here. This opportunity was of course immediately taken advantage of in the exchanges, and ever-increasing quantities of silver were brought to the Austrian and Hungarian mints for recoinage in gulden, to the profit of speculators. In this way, to the great astonishment of the public, specie again came into circulation in the country in not inconsiderable quantities. The coinage of silver gulden amounted, in 1877, to about 16,500,000, in 1878 to nearly 25,000,000, and in 1879 rose above 64,000,000. In the latter year this traffic was put a stop to, the coinage of silver on private account being discontinued. However irresolute the governments might be regarding measures to be undertaken by themselves, they were yet unwilling that the fate of our currency should be decided by private speculation, which had flooded the country in a short time with the depreciated silver.

The situation which now supervened was of such a peculiar

character that I must beg leave to discuss it somewhat more at length.

For more than a quarter of a century our paper money had had no relation to the metallic currency of other countries. The premium had driven abroad almost all the precious metals excepting the amounts which were locked up in the vaults of the bank. Now the dam erected by the premium had broken down, so far as concerned one of the metals, silver, and it immediately flowed in in such quantities that it was thought prudent to prevent its further influx artificially by the prohibition of further coinage. Our money was thus again, after a brief interval, isolated from the specie of the rest of the world. Yet the situation was somewhat altered, the composition of the circulating medium in use in the country was different from what it had been; our currency was rather more saturated with silver than before.

We now had the following media of exchange: First, the uncovered government notes of varying amount, between 312,000,-000 and 412,000,000; further, the bank-notes secured by the bank's reserve and, agreeably to the banking act, capable of increase when the bank succeeded in increasing its stock of metal; finally the silver gulden lately reintroduced into the circulation, the quantity of which could not be increased apart from such coinage as the governments might undertake on their own account, and which, in point of fact, had so far been inconsiderable. Treasury-notes, bank-notes and silver gulden were of equal value. They were all alike "gulden of the Austrian standard," and equally legal tender.

A broad, in exchange with countries having a gold standard, the "gulden of the Austrian standard," although there were frequent fluctuations, yet maintained a greater stability than it could have done with a pure silver standard and with free coinage of silver. Our gulden shared not at all, or in a minor degree, in the great fall in silver which fully affected, *e.g.*, the Indian rupee. This resulted from the suspension of free coinage, which closed the channels leading from the silver-market to our mints. Now, as the gold-value of silver bullion sank continu-

ally, though the gold-value of our gulden did not decline, or declined to a much less extent, the bullion value of a silver gulden, measured in Austrian money, diminished greatly. It fell at times to about eighty kreuzer (eighty per cent. of a gulden). Silver had become of less value than paper! Or, more exactly, a silver gulden was indeed worth as much as a paper gulden, but the fine metal contained in a silver gulden (one-nineteenth of a kilogram of fine silver) was worth less than a "gulden of the Austrian standard," whether this might be a silver gulden or a paper gulden.

The theoretical interest of this relation of values is as great as was its practical importance to the final regulation of our monetary system.

I will briefly indicate the theoretical considerations which here suggest themselves. The United States, the Latin Union, Germany, and other countries have likewise at present silver coins in circulation—silver dollars, silver thalers, etc.,—whose purchasing power considerably exceeds their metal value. This relation is to be explained, like the difference between the purchasing power and the bullion value of token coins, merely by the fact that in these countries there are legal provisions by virtue of which these silver coins represent more of the gold coin of the land than would be justified by their bullion value; while, at the same time, this legal over-valuation is secured by the prohibition of free coinage. The excess-value of the silver coins mentioned is thus derived from the value of gold money; its source is the value of the other, more precious, metal. But the case stands quite otherwise in Austria. We have, indeed, always had gold trade-coins (ducats and others) but until the reform of the currency we had no gold coins for domestic use. The silver gulden were up to that time our only standard coins. If, now, our silver gulden so long maintained a purchasing power so far in excess of their bullion value, whence did they derive this value? There was, as we have said, no legal connection between the silver and the gold such that the silver might have derived value from the metal value of the gold. Concurrent

with the silver gulden, the paper gulden maintained an actual value far above the value which its metallic basis, the silver gulden, could have given it. Is there not, then, in this case, a clear example of a money whose value, in defiance of all theory, is determined quite independently of any relation to a metallic basis? I may be permitted to add that a phenomenon of precisely the same character, from the point of view of monetary theory, as that which has just been related of Austria, appeared at an earlier period in Holland, and again, very lately, in Russia. After the last decline in the price of silver, the silver ruble fell below the paper ruble. The situation in Russia, however, is a different one, in so far as that country is possessed of a very considerable stock of gold, while in Austria there was, up to 1890, scarcely any gold beyond the little that belonged to the bank reserve. For this, and for certain other reasons, the case of the Russian currency, as well as that of the Dutch, has not the same theoretical cogency as that of the Austrian.

The practical conclusion which our leading men have drawn from the situation which has supervened since 1879, is this, that they declare a return to a silver standard out of the question. A considerable time was required before opinion became entirely clear and positive on this subject. Even as late as the monetary conferences at Paris in 1878 and 1881, the delegates of our country had received instructions which might admit the inference of an intention to reëstablish the old silver standard. In the year 1867, however, a step had been taken toward uniting for a pure gold standard with the Latin Union, where a reform was then being attempted. But the difficulties which had obstructed the introduction of the gold standard in states far more prosperous than Austria consigned this plan to oblivion, and it was regarded as settled that Austria must content herself with a silver standard. But now, since 1879, we have been coming to recognize more clearly, year by year, what would have resulted from a return to the silver standard. The money of account in the countries of chief importance to Austria's foreign trade, especially our greatest neighboring states, Germany, Italy, and

Switzerland, was gold. Had we entirely substituted silver for our peculiarly composite "gulden of the Austrian standard", we should have replaced a comparatively stable money with one much less stable, the introduction of which would have caused our money to depreciate suddenly and to almost the full extent of the fall of silver since 1879; while, besides, year after year, all our payments to and from foreign countries, our entire foreign market with its scale of prices, the fate of countless enterprises and individuals, and, especially, the finances of Austria and of Hungary, burdened with obligations calling for payment in gold, would have been exposed to the danger of fluctuations incalculable in extent. If we would have money possessing the most important quality of money, stability of value, for the immediate and proximate future, this money must be gold; if possible, it might better yet be paper; but it should by no means be silver, in the sense of a pure silver standard, that is, of free silver coinage.

Our monetary policy was by implication decided for us in the decision taken by Western Europe, with which we could not but agree. Even those among us who wished that Germany had taken another course, that the Latin Union had not departed from the double standard, that the United States had succeeded with its plan of rehabilitating silver, that England had tempered its unqualified adherence to the gold standard, could not do otherwise under the given conditions than accept the facts of the European world. We had afforded a refuge to silver during the period of free coinage before 1879, to our own detriment and without success; we could not repeat the experiment, which, for our meager resources, would no longer have been an experiment but simply immediate financial and economic collapse. "Even if the monetary system of the civilized world is not regulated as it ought to be,"—if I may repeat what I said on a previous occasion,—"still it remains a necessity for Austria to conform to that system, whatever it may be. Money is like speech; it is a means of intercourse. He who would have dealings with others must speak their language, however irrational he may find it. Lan-

guage is rational by the very fact that it is intelligible to others, and more rational in proportion as it is intelligible to more people or to all. There can no more be an independent money system than independent speech; indeed, the more universal character of money, as compared with language, appears in this, that while a national language has its justification and significance in the intercourse of the world, there is no place for a national monetary system in the world's intercourse. If Europe errs in adopting gold, we must still, for good or evil, join Europe in her error, and we shall thus receive less injury than if we insist on being 'rational' all by ourselves."

Resumption would hardly have been determined upon, however, but for the fact that about the end of the "eighties" the value of our money, as compared with gold, materially rose. The premium on gold, which averaged 23.68 per cent. in 1887, showed an average of only 21.35 per cent. in 1888, 17.11 per cent. in 1889, and in 1890 of no more than 14.05 per cent. Our money reached its highest quotation in September, 1890. On September 2, 1890, the Napoleon was quoted on the Vienna bourse at eight gulden, eighty-two kreuzers, which corresponds to a premium of not quite nine per cent. To this alteration in the quotations, the rise in the price of silver which had set in after the passage of the silver bill in the United States, without doubt contributed most, and it would certainly have been a remarkable coincidence if a law which was adopted in America in favor of silver had impelled a remote European state to a gold standard. As silver rose, the value of the Austrian silver gulden, of which the government had again acquired a larger supply, rose also. If silver came to the old par with gold, the silver gulden must reach the old par with the gold coins, and with it the paper gulden might also, perhaps, appreciate, now that the finances and the credit of the monarchy had been strengthened. The monetary policy of the United States opened up the prospect—toward which the quotations of those days seemed irresistibly tending—that as the premium on silver had disappeared in 1878, so now the premium on gold might disappear twelve years later.

The unexpected rise in the value of our money caused a great deal of excitement in this country. The public exulted in the naïve opinion that the honor of our monetary standard, so long impaired, was about to be reëstablished. Moreover, all those who had payments in gold to make abroad, whether as interest or principal of loans, or for imports, calculated the advantage which accrued to them through the cheaper purchase of gold. On the other hand, the opposite calculation—of losses suffered—was made by those who received payments of gold from abroad, and who now exchanged these payments for a less sum of the money of the realm; this was the view of the exporting manufacturers of the West and the exporting agriculturists of the East, especially Hungary, and these classes exerted themselves for their interests with the effectiveness with which great leaders of industry are always able to support their demands. They were able to claim that their personal advantage is inseparably connected with the fate of their undertakings and with the fate of all persons employed in, or otherwise dependent upon, these undertakings.

The governments were bound to regard the situation from a standpoint far above that of individual factions. In 1879 they had ordered the discontinuance of silver coinage in order that the money of the realm should not further depreciate; and they had continuously maintained the prohibition in force, because the differences of values, on account of which the money of the country would otherwise have depreciated, constantly increased. Now this money had suddenly appreciated, and to an extent more than sufficient to blot out the difference against whose evil effects the discontinuance of coinage had been intended as a safeguard. But for the very reason that it was so sudden and so great, this "improvement," however advantageous to individuals, was detrimental to the general interest, in that it was a considerable alteration in a standard which completely serves its purpose only when it remains unaltered. It would have been fortunate if the parity of the metals that had obtained down to 1848 had never been lost, but now, after it had been practically

forgotten, after all claims and obligations abroad had come to be measured by other standards, after all the capital which had been accumulated and all the great enterprises which had been undertaken during the last forty years—that is, the great majority of all accumulations and all enterprises—had been accumulated and undertaken under the new conditions, it would have been a dangerous breach with the present to revive the obsolete standard of the past. Since the discontinuance of free coinage, it had been thought that a fair degree of security against an excessive depreciation of the currency had been attained, and that a condition of tolerable stability had thus been reached. The possibility of a considerable and rapid appreciation had not been anticipated. Now that appreciation had set in, in consequence of the rise in the price of silver, the complete insecurity of our currency system was for the first time recognized, and it became necessary at length to take serious thought for putting it on a firm basis. But this could be accomplished only by passing to a gold standard. Thus, at last, was reached the decision to resume specie payments.

The period 1890–1892 was occupied with all sorts of preparatory measures. Especially, purchases of gold were made by the two governments with the resources of their treasuries; this was particularly the case with the Hungarian government, of which it is to be said that it made up, at the last moment, by extraordinary energy and skill, for the grave and protracted neglect of its fiscal duties in previous years. The gold purchases of the governments may have been one of the chief causes of the fact that, as a result of the increased demand for foreign exchange, the course of foreign exchange again became gradually less and less favorable to this country, so that the improvement in the exchanges during the summer of 1890 was finally lost, and there was a return of more moderate rates. If this was the purpose of the action taken by the governments it may be accepted as proving how far a government may be able, by judicious interference, to modify the action of the “natural laws” that govern the market. At any rate, however it may have come

about, the governments, which had found the money market unfavorable to their purposes in the summer of 1890, found, in 1892, that the condition of the market precisely answered their purposes.

Herewith we have reached the question of the "relation"—of the terms of conversion—between the old and the new standard.

### III.

All plans which had been devised up to 1866 proposed simply to resume specie payments in silver, while the paper gulden already issued should be redeemed at their full nominal value in silver gulden, so that the paper money would have regained at once its old parity with gold coin. Since then the situation had changed so greatly that the old plans had become impracticable. There was more to be done than merely to redeem the paper; it was further necessary that its metallic basis, the silver standard, should be converted into a gold standard. Both of these difficult operations, which were thus to be combined, had to be carried out under circumstances which made them, even independently of each other, more difficult than the corresponding operations by other states during recent decades. The United States had redeemed its paper money after the war for the Union; the French republic, after the war with Germany; the new kingdom of Italy, after it had become firmly established; but nowhere had such a currency become so deeply rooted by time, so incorporated into the habits of trade, or been so long and with such grave consequences deprived of a solid metallic basis. Germany and many other states had exchanged the silver for the gold standard, but they had done it before the ratio of silver to gold had been so gravely disturbed.

In consequence of the peculiar complications of the case, a question has here come into prominence, which could otherwise have been answered summarily and without deliberation—the question of the *relation*, as it is called with us. At what value was the paper gulden to be redeemed?

The most obvious plan seemed to be that which had always been intended up to 1866, namely, the adoption of the nominal value. But the paper gulden had a nominal value only in silver; its face value was a silver gulden of one-ninetieth of a kilogram fine. If this value was reduced to a gold value, at the market price of silver, the paper gulden would appear to be worth not even one and one-half marks of the German standard. But, again, if the silver gulden were reckoned at the old par (one gulden equalling two-thirds of a thaler) and on this basis reduced to terms of the German standard, it would be valued at two Imperial marks. Commercially, it had always been customary, since earlier times, to speak of two marks as "the face value of the gulden in gold," though this valuation was not justified in any strictly legal sense. The governments had never given a promise which could in any way be taken as implying an obligation to redeem their notes in gold at all, much less in any fixed amount of gold. The paper gulden has no face value in gold.

If, instead of a nominal value, an estimate was made of the market value of the silver gulden, relatively to the quotations for the coins and paper of gold-standard countries, an evaluation was obtained about midway between the extremes just given; our gulden was worth, in the market, about 170-180 pfennigs, that is, about one and three-fourths Imperial marks. This actual market value was clearly the one which must be chosen. The quotations, at which bills and coins of the gold standard countries were rated in our money must, plainly, determine the quantity of gold for which the paper gulden was to be redeemed, of which the new gold gulden was to consist, and according to which the parity of our money with foreign money was henceforth permanently to be fixed. But that did not entirely settle the question; the real difficulty was only just presented for solution. The market value of our money was to determine the ratio of redemption; but the market rate for what day, for what time?

Three opposing views were offered. The rate of the day on which the new standard should be adopted was favored by some; by others, the average rate for a considerable period in the past;

yet others demanded that account be taken of the forces by which the exchanges would be affected—it was anticipated that they would fall—in the future. The difficulty of the decision is shown by the fact that none of the three views was capable of precise formulation. If the day's quotation was to decide, then, what day's quotation was to be decisive? The one on which the government brought in its project, and which might naturally seem preferable in the opinion of the administration, or that on which the proposal became law, or the one on which it went into effect? In the alternative case, of what period should an average be taken?—the period since the discontinuance of free coinage in 1879, which many advocated, or since the last note issue of 1866, or since 1859, or since 1848? And, finally, who was to anticipate exactly the future course of the money market?

In support of each of the three opinions, little as they were capable of precise formulation, weighty reasons could be adduced. In favor of the day's-quotation plan, it could be said that it would be unjust to offer to the owner of a quantity of gulden, by act of legislature, and to the creditor to whom such a sum was due, less gold than he could even then obtain in the open market; and, on the other hand, that it was quite as unjust to require of the debtor more gold than he would have had to give in the open market to obtain the gulden necessary to discharge the debt. In favor of employing the past average rate it was to be said that existing undertakings, prices, demands and liabilities had been accommodated to it in much greater degree than to any other rate; that, therefore, if it were adopted, the disturbance to business would be much less than that accompanying the employment of any other ratio. In favor of making allowance for the probable future condition of the market it could be argued that the demand for gold arising from the introduction of the gold standard must lower the value of the old money and that it was, therefore, unadvisable to base calculations on the existing relations of value which must soon make way for others. On the whole, the financiers favored making use of the market rate for

a day, not only because their own business operations had accustomed them to it, but also because this made probable a somewhat higher equivalent for the gulden—a “heavy” gulden—and they thought it prudent to avoid antagonizing the foreign capitalists (whose assistance was indispensable for a successful reform of the currency) by paying in “lighter” gold gulden their drafts on paper or silver. The government and many theorists favored a “lighter” gold gulden, which would correspond to the past average ratio, and which would also anticipate the probable future movement of the quotations.

In the end disagreements were reconciled much more easily than could have been expected. As has already been remarked, the course of the market, which had gradually grown more favorable to the Austrian money after 1890, had now again become less favorable, and had pretty closely approached the average rate. On the day on which the government at length brought in the bill, twenty-mark pieces stood in Vienna at 11.72 gulden; napoleons at 9.505; sovereigns at 11.94; while the governments, on the basis of the average ratio since 1879, proposed to allow the gulden a somewhat less weight of gold, which would have raised the coins named to a nominal value of 11.757, 9.523 and 12.008 gulden, respectively. To this, moreover, it is to be added, that the average ratio would be approximately the same whether it was calculated from 1879 or 1866, from 1859 or 1848. Those who were interested in having a heavy gulden were compelled to admit that the fluctuations of the market within an extremely short period might have led to the adoption of a still lighter gulden, and that for the slight loss which they temporarily suffered by the proposed ratio, there was ample compensation in the prospect of security against all further fluctuations after the reform of the currency should have been accomplished.

The proposed ratio was accepted without any opposition worth mentioning. It corresponded to a discount on the gulden of about seventeen and one-half per cent. as compared with the par of the Austrian money, as rated in terms of the currencies of Western Europe before the year 1848.

## IV.

I will now, as briefly as possible, relate what has been done up to the present for the reform of the currency. The bills, brought in, in May, 1892, were approved by the Emperor in August. They fix certain essential features of the new standard, but do not entirely make it plain what its character is to be, because they reserve many important particulars for later regulation.

The new currency is known as the "crown" [*Kronen*] currency, so-called from the new unit of account, the *Krone*, which takes the place of the gulden and is precisely equal to one-half gulden. Thus any sum of money expressed in gulden is reduced to kronen by simply doubling. Public opinion has long declared for a unit of account smaller than the gulden, "for what is bought in Germany with a mark we must pay a gulden," although the mark is worth less than six-tenths of the gulden. This was the oft-repeated complaint of the public. Lower retail prices were hoped for as a result of the smaller monetary unit; in opposition to almost all theorists the governments complied with this wish.

Correspondingly, in place of the former unit for the smaller coin, the kreutzer (one-hundredth of the gulden), the new heller (one-hundredth of a krone) was introduced, with a value half that of the kreutzer. It was scarcely proposed by any one to conform to one of the existing foreign standards as the German mark or the French franc. The idea of a uniform cosmopolitan coinage, though it had met with so great approval at the monetary congress held on the occasion of the Paris World's Exposition in 1867, was foreign to that generation of Europeans who had reached political maturity under the high tension of national sentiment attending the unification of Italy and Germany, the Franco-German war, the military restoration of Russia, and the condition which followed these events, the general and ominous military preparation known as the "armed peace." The character of the krone-currency, so far as it has been determined, is that of a gold standard of the purest description, similar to the English

or the German standard, as the latter was originally projected (not, certainly, as it has been realized). As standard coins, gold pieces only are proposed—ten and twenty kronen. Silver is issued in krone-pieces, subsidiary coins, greatly over-valued, having the high legal-tender limit of fifty kronen. Besides these there are nickel and bronze coins. The kilogram of fine gold is coined into 328 ten-kronen pieces, or 164 twenty-kronen pieces. The twenty-kronen piece has a fine content of something more than six grams (6.09756). Its equivalence is accordingly as follows:

- 1 Krone=1 Franc 5 centimes (exactly 1.05135),
- 1 Krone=85 pfennigs, German standard (exactly .85060975),
- 1 Krone=10 pence (9.99),
- 1 £=24 Kronen (24.01743),
- 1 dollar equals roughly 5 Kronen (more exactly 4.9351).

The governments were especially charged to procure by loan, and to coin as much gold as is required for securing 312,000,000 gulden of the government notes in circulation. Until the time when specie payment goes into effect, the gold pieces here referred to are to be held in store under the supervision of Parliament. Gold pieces are coined, besides, for the bank and on private account, and they have already been put in circulation although only in very small amounts. The first of the new subsidiary coins (silver, bronze and nickel) are, in part, just now being issued, while part will be given out presently. The new coins will, for the present, circulate concurrently with the old; an Austrian of to-day can make his payments as he pleases, in gold, silver or paper, or in copper, nickel or bronze. Just as rapidly as the coinage progresses, corresponding amounts of the old pieces will be withdrawn. That is the monetary program as it has thus far been laid down by statute. The rapidity of its realization depends, practically, on the rapidity with which the necessary quantity of gold can be procured. Until very recently, few Austrians would have dared to believe that their country, which they had heard characterized as burdened with debt, creditless, deficient in capital, feeble, should be in con-

dition to supply itself, in a time of general demand for gold, with the great quantity of the precious metal necessary for securing a gold standard. Ten years, or even five years earlier, there had seemed scarcely a prospect that we should be able to supply our necessities. But the condition of the market had changed. The "gold blanket" which, according to Bismarck's utterance (since become famous) was to be found short, has since grown broader in all directions, throughout Europe. The great banks were able steadily to increase their stock of gold. Discounts fell, showing that the money markets were well supplied; at the same time, the news from the gold-producing countries was growing more favorable; the annual out-put was increased, and approached the largest production which had ever been known in the years of greatest abundance. Those European countries which had decided to adopt a gold standard, or (as, *e.g.*, the Latin Union) to reorganize their double standard with gold as a basis for calculation, had for the most part concluded their operations, or, at any rate, brought them nearer a provisional conclusion. This gave an opportunity for additional states to supply themselves out of this abundant out-put, and among the European countries yet remaining it was undoubtedly Austria's turn next. The writer of economic history will, at some future time, be able to take a clear survey of the process by which, from 1850 on, the channels of circulation were filled with gold—gradually, now here, now there; first partly, then completely; first temporarily, then permanently; the states following each other in a more or less definite order, which was conditioned by the degree of industrial development and of wealth, by inherited currency laws and customs of reckoning, and by accidental circumstances; and although broken in some cases by precipitate action, this order was governed, on the whole, by a sort of tacit understanding. Austria, which had long voluntarily held back, might therefore well feel that it was her turn to act.

The condition of the market in which Austria set about procuring her gold would be incompletely described if attention

were not called to a fact which had operated in our favor, and which has also in other ways, during these decades, contributed much toward determining the movements of the gold current. Gold has often entirely or partly reversed its movement, and has flowed away from countries which had previously absorbed it freely, gushing out and away from those states in a torrent, as from a reservoir. It was such a reverse current that filled Europe with gold from certain South American countries that were suffering from a monetary crisis. But that which worked for our good still more, and beyond all expectation, was the fact that an unusually abundant supply of gold flowed out from the United States just at the moment when Austria applied herself to procuring a stock of that metal. All the great European banks of issue profited by this opportunity, and we, too, made the most of it. It is in great part your republican "Eagles," stamped with the imperial eagle of Austria, or the royal crown of St. Stephen of Hungary, that just now are furnishing the basis of our gold standard.

The governments and the bankers of the monarchy showed the greatest energy in taking advantage of the favorable moment. Up to the year 1890, we had, besides a small quantity of gold for foreign trade, only the gold reserve of the bank, which amounted to about 90,000,000 gulden—of which, however, only about 65,000,000 was actually gold, the rest consisting of gold-bills. Since 1890, both governments have bought gold, or even gold-notes, with the funds in their treasuries; a procedure for which they did not require the permission of parliament. Since immediately after the approval of the reform laws, for the most part as early as August and September of last year, the bank has bought gold, taking advantage of the favorable rates of exchange and the American export of gold. The flow of gold into the bank was promoted by a liberal rating of foreign coins, as well as by the bank's legal obligation to pay for a kilogram of gold—which, minted, makes 3,280 kronen—3,276 kronen in bank notes, a comparatively slight seigniorage. After a time, indeed, the flow of gold to the bank ceased, but the governments

now proceeded to carry out the legal provision, that gold for funding the government notes should be procured by borrowing. In this they make use of the co-operation of a great number of institutions of credit which are conducted by the greatest houses of the monarchy. The loan is being placed abroad, gradually, and the receipts employed for the purchase of gold. The establishments placing the loan have already turned over to our Minister of Finance the gold accruing from the first installment of the loan, and have since undertaken the placing of a second installment, for which they have probably already secured the requisite amount of gold. Supposing them to have succeeded in this, we are, at the present moment, able to dispose of the following gold funds :

(1) The Bank's stock of gold (and gold bills)	133,300,000	gulden.
(2) Stock of gold in the Austrian Treasury, (including gold bills)	35,000,000	"
(3) Stock in the Hungarian Treasury (includ- ing gold bills)	55,000,000	"
(4) Obtained by the government by means of loans	127,700,000	"
Total	351,000,000	gulden.

Of this, the gold paper, which is gradually being called in, constitutes but a small part. The increase of our gold supply has been achieved without perceptible draft on the stock of other European countries ; particularly, the reserves of the great banks of issue have not been trenched upon. The foreign financial world, which at first regarded our purposes with mistrust, now recognizes the skill and discretion of our agents, who have thus far in no way disturbed the monetary system of Europe. More precise knowledge of the source of the gold obtained has reached the public only so far as concerns the acquisitions of the bank. Of the 40,000,000 gulden which it has recently acquired, the greater part has come from America. About 17,000,000 has come in the form of bullion and 23,000,000 in foreign coin, and of this not less than 18,500,000 in American "Eagles."

As remarked above, the governments are charged with procuring 312,000,000 gulden for securing the treasury notes. For this purpose, the sums indicated under (3) and (4) are available, amounting to 182,700,000, while 129,300,000 are still to be procured in order to conclude this part of the operation.

At this moment, then, we stand at the point of transition from the old to the new standard. This transition state is by no means free from dubious and objectionable features. Up to the present we have not adopted specie payment. We still need more gold; we continue to accumulate it, and, apart from the small sums coined on private account, we do not yet permit the gold which has been collected to pass into circulation at home, much less to be paid out abroad. While the mints, as well as the bank, are required to purchase gold at the price fixed by law, neither do the governments for the present pay out gold, nor does the bank redeem its notes. Thus gold can come into the country, but it is not yet allowed to go out. Private persons and speculators have the privilege of disposing of gold here, but it is not possible for them as yet to carry gold away from here.

From this it follows that it is no longer possible for our money to rise permanently as compared with foreign gold coin, though it may fall. Any incipient advance would lead to the flow of gold through the exchanges from abroad into the vaults of the bank. The value of our money would thus be lowered again to the legal ratio; on the other hand, a possible fall of its value would not be counteracted by payments in specie. Aside from silver, we still pay invariably in irredeemable paper, whose value, even with the fullest confidence of the market in the successful reform of the currency, must yet, in case of an unfavorable turn in rates of exchange, be much more exposed to fluctuations than the value of coins, which is maintained by the value of their metal. The danger of a fresh depreciation as against the legal rates of equivalence just published, is therefore not yet definitely past. In fact, a slight discount already exists since the beginning of this year; there is a premium on foreign exchange

and on coins of the gold standard, which, since the beginning of April, has risen, pretty rapidly, to rather more than two per cent. There is not a little uneasiness on account of this fact, and it is regarded by the public as confirming the declaration of experts that we have not yet reached a normal condition.

What is there still to be done, in order that the reform of the currency may be considered complete, and that payment in specie may at length be resumed?

It was calculated, above, that about 130,000,000 gulden of gold still remains to be provided in order to complete the fund determined upon for securing the 312,000,000 gulden of government notes. In procuring the millions yet lacking, we are prepared to encounter friction and obstacles greater than those we have met with in procuring the earlier instalments. "The first fifty hundred millions will be the easiest to obtain, the last, the hardest;"—this was the watch-word with which the task of providing gold was begun. It is to be added that we shall have to push our operations with increased vigor. We might deliberate as to whether we should begin; we cannot hesitate after we have once started out. We cannot afford to let the premium make itself at home again in the new situation; we must pass out of the transition stage as soon as possible.

But it is clear that our monetary program, so far as it has yet been fixed by law, is not sufficient. We must do something more than merely secure the 312,000,000 gulden of notes with gold. But as the governments have not yet declared their further purposes, I must confine myself to describing the actual situation as it is, without being able to point out the measures which will be adopted.

To begin with, the 312,000,000 is only the minimum amount of the government note circulation. The entire circulating debt, as was explained at the outset, exceeds this by 100,000,000; this amount, if it cannot be covered by the salt-works bills, circulates likewise in the form of government notes. In regard to the purposes of the administration as to this part of the floating debt nothing has thus far been made known, aside from the declara-

tion of the Austrian Minister of Finance that the stock of gold in the possession of the Austrian treasury placed at 35,000,000 gulden under (2) above, might be appropriated to this purpose.

Further, the condition of the bank is to be taken into account. The circulation of its notes amounted, on March 31st of this year, in round numbers, to 465,000,000 while their metal consisted for the most part (to the amount of 174,700,000) of silver. If the bank is to resume specie payments in gold it must first have disposed of a very considerable part of its stock of silver in exchange for gold. In view of the critical condition in which the Austrian currency and the Bank have stood for so long, the fact that mistrust abroad is so easily awakened, and mistrust at home awakened perhaps more easily still, the solvency of the bank must be placed far above all doubt before the new régime can begin.

The governments will, at any rate, be in condition to afford the bank a certain degree of assistance. For, of the gold which is to be collected, to the amount of 312,000,000 for securing the government notes, there will remain (leaving out of account the 100,000,000 residue of the floating debt) a not inconsiderable excess, because a part of the notes will be redeemed with silver kronen. Meanwhile, it is not to be overlooked that the governments will have to guard, on yet another side, the equilibrium of the gold and silver currency. Aside from the silver treasure of the bank (and taking no account of the subsidiary silver coinage which has been issued to the amount of about 40,000,000 gulden) there is in the country much other silver money of larger denomination, partly the product of the recent coinage, partly, also, hoarded for a long time past, especially by the country people. An account taken April 28, 1892, showed that there was then on hand in the national and other public treasuries, and in the hands of railways and institutions of credit in Austria and Hungary, including the holdings of the bank (then amounting to only 164,000,000) a stock of something over 180,000,000 gulden; but in this were not included the funds held by the public, and also no account was taken of subsidiary coin. At the introduction of the bills in

Parliament the entire mass of silver money on hand at the end of 1888 was estimated by the Austrian administration (basing the calculation upon the domestic production, the imports and exports, and the conjectured use for industrial purposes) at not less than 230,000,000 gulden. But here, again, is an omission of 13,000,000 gulden in thalers of the Zoll-Verein, which we were obliged to take from the German government. The Austrian Minister of Finance declared later, in the House of Deputies, that "no one knows what amount of silver currency we actually have in the country." A part of the silver on hand is now needed, at any rate, for coining the new silver kronen. But as only 200,000,000 kronen of this, equal to 100,000,000 gulden, are to be coined, and as these are so far over-valued that they will require the use of not more than about 75,000,000 of the old money, a very considerable portion of this amount will be left over. The disposition which is to be made of this remains an open question in the ordinances thus far enacted. Meanwhile, it may safely be assumed that no silver will be sold; the loss resulting would too sensibly affect our finances, and, besides, it appears that reassuring declarations on this point were published from the first, in order to favorably influence the foreign markets. On the other hand, it may just as safely be assumed that, however great the excess of silver may be, we shall not alter, in the new law, those most essential stipulations which secure to gold the primacy in our monetary system, and give our money constancy of value as reckoned in foreign gold standards.

It is scarcely avoidable that our model monometallic gold currency will in the end have to be transformed into some sort of a halting gold standard, after the manner of most other states. This might come about most easily by allowing the excess of silver gulden to remain in circulation, as was done with the thaler in Germany. The Austrian House of Deputies has expressed a wish in the form of a resolution, that in place of the excess of old silver gulden, new silver standard coins of the kronen system should be issued, the amount to be made contingent on conditions to be specified. The Austrian House of Peers, however,

as well as the Hungarian Parliament, seem to favor the maintenance of a pure gold standard.

Thus the silver question, which agitates the whole world, exists also in Austria-Hungary. We have silver enough to be directly interested in the international decisions as to the fate of silver. The Austrian and the Hungarian governments did not, however, declare in favor of silver at the monetary conference in Brussels; they have rather observed an attitude of entire reserve. Indeed, they could not well do otherwise, with proper regard to the condition of our legislation at the time and to the jarring sentiments of the representative body. Besides, they are obliged, for the present, to devote all their energy to procuring gold, and need not run any risk on account of their store of silver, to which, at the worst, they can afford a place in their own monetary system as successfully as the like has been done in the monetary system of other European states. Selfishness, the exclusive care for one's own advantage, which passes with many authors as the sole norm governing the economic behavior of individuals, without doubt now governs the conduct of all civilized countries with regard to their monetary systems. It is possible that a larger measure of mutual confidence would be the most highly conducive to the advantage of all, but it must be admitted that an exaggerated self-confidence may very readily be condoned in a state which, after decades of weakness, has at length found power to help itself, and which must avoid every appearance of delay or retreat in order not to admit despondency into its own camp, or to permit doubt of its serious purpose or its strength abroad.

F. WIESER.

PRAGUE.